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Witness: Douglas P. Horton, Julia Frayer, Matthew Nelson and Michael Goldman
Request from: Public Utilities Regulatory Authority

Question:

(CONSUMER DIVIDEND) Exhibit CLP-ELP-1, pp. 94; Interrog. Resps OCC-539. The Consumer Dividend increases by 0.10 percentage points when the Company's Core Operating Expense per customer is below the applicable inflation-adjusted benchmark and decreases by 0.05 percentage points when it is not. Identify all quantitative analyses, calculations, empirical evidence, or regulatory precedents relied upon to establish the 0.10 and 0.05 percentage-point adjustments. Provide the results in an unlocked Excel workbook with all equations, calculations, links, and underlying assumptions/workpapers unhidden, unprotected, and in a reproducible format.

Response:

The Company relied on a qualitative assessment rather than a quantitative calculation to establish the 0.10 and 0.05 percentage-point adjustments, and no workbook was prepared for that purpose. The adjustments were set by judgment, applying several design considerations to create an incentive structure that shares operating efficiency gains with customers while maintaining an asymmetric adjustment mechanism that favors customers.

First, the 0.10 percentage-point increase was sized to keep annual changes within the overall range of Consumer Dividends approved in other jurisdictions, which is 0.15 percent to 0.60 percent (Ex. CLP-PBR-3, pp. 37–38, Figure 16). The proposed Consumer Dividend starts at 0.30 percent and can adjust in each of the three Rate Years that follow the first. If the Company's Core Operating Expense per customer is below the benchmark in every year, the Consumer Dividend increases to 0.60 percent, the top of the 0.15 to 0.60 range, and cannot exceed this maximum range. This comparison was used as a reasonableness and design consideration, not as a quantitative derivation of the 0.10 percentage-point adjustment. The Consumer Dividend is also capped at the composite measure of inflation for the year (Ex. CLP-ELP-1, p. 96, ll. 8–10). If the Company's Core Operating Expense per customer is below the benchmark, the Consumer Dividend increases, providing customers with an immediate share of the benefits associated with improved operating efficiency during the plan term. The lower overall cost level due to those efficiencies is then reflected in base rates when rates are reset in the next rate case, ensuring efficiency gains carry forward to customers beyond the plan term.

However, if operating costs do not decline, the Consumer Dividend steps down with a 0.05 percentage-point decrease. The 0.05 percentage-point decrease was intentionally set at half the

increase so that the mechanism is asymmetric and in customers' favor. A year of weaker performance reduces the Consumer Dividend by less than a year of stronger performance raises it, so a single bad year does not erase prior customer benefits, and achieving operating efficiencies remains the more favorable financial outcome for the Company (Ex. CLP-ELP-1, p. 96, l. 14 – p. 97, l. 7; Ex. CLP-IAP-1, p. 76, l. 19 – p. 77, l. 7). The Consumer Dividend never falls below 0.30 percent (Ex. CLP-ELP-1, p. 94, ll. 7–9).

Because the 0.10 and 0.05 percentage-point adjustments were established through judgment rather than a quantitative model, there are no calculation workpapers, supporting equations, derivation spreadsheets, or similar materials used to determine those values. Accordingly, the Company has no responsive workbook showing calculations used to establish the 0.10 and 0.05 percentage-point adjustments.